

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 AID-05 CIAE-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
PA-02 /131 W

-----099122 192025Z /20

P R 191610Z JUL 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 8322
TREASURS DEI AAS DC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

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USEEC ALSO FOR EMBASSY
USOCD ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD JULY 13-19

SUMMARY: RETAIL PRICES ROSE 7.4 PERCENT IN THE YEAR TO
JUNE. RETAIL SALES VOLUME ROSE IN JUNE COMPLETING A
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SECOND QUARTER RISE OF SOME 1.5 PERCENT. UNEMPLOYMENT
ROSE FOR THE FIRST TIME SINCE SEPTEMBER 1977 WHILE AVER-
AGE EARNINGS ROSE MORE SLOWLY IN MAY THAN IN APRIL. IN-
DUSTRIAL PRODUCTION EASED AFTER RISING SHARPLY IN APRIL.
STERLING HAS HAD A GOOD WEEK. THE BANK OF ENGLAND POST-
PONED THE RESTORATION OF THE 3 PERCENT CALL FOR SPECIAL
DEPOSITS TO CONTAIN UPWARD PRESSURE ON SHORT-TERM INTER-

EST RATES. END SUMMARY

1. UNEMPLOYMENT. UNEMPLOYMENT ROSE MODESTLY IN THE MONTH ENDING IN MID-JULY. THE SEASONALLY ADJUSTED TOTAL EXCLUDING SCHOOL-LEAVERS INCREASED BY 6,600 TO 1.3713 MILLION (5.7 PERCENT) BUT THE RAW TOTAL JUMPED BY FULLY 140,000 TO 1.586 MILLION (6.6 PERCENT, A 0.5 PERCENTAGE POINT RISE FROM JUNE). TWO-THIRDS OF THIS INCREASE (98,000) IS ATTRIBUTED TO A SEASONAL INFLUX OF SCHOOL LEAVERS. THE NUMBER OF UNEMPLOYED SCHOOL-LEAVERS IS ONLY ABOUT ONE-HALF THE NUMBER DURING THE SAME MONTH IN 1977, REFLECTING, IN PART, THE INCREASED RATE OF ECONOMIC ACTIVITY THIS YEAR. THE SEASONALLY ADJUSTED TOTAL FOR THIS MONTH ENDS AN UNINTERRUPTED DOWNWARD TREND BEGINNING IN SEPTEMBER 1977. SIMILARLY THE NUMBER OF REGISTERED VACANCIES DECLINED FOR THE FIRST TIME SINCE SEPTEMBER 1977. THE FOLLOWING TABLE SUMMARIZES THE LATEST FIGURES FOR BOTH THE UK AND GREAT BRITAIN:

	UNITED KINGDOM			
	SEASONALLY			
	UNADJUSTED	PERCENT	ADJUSTED	PERCENT
	(MILLIONS)		(MILLIONS)	
JAN.	1.5485	6.5	1.4192	5.9
FEB.	1.5087	6.3	1.4090	5.9
MAR.	1.4610	6.1	1.4000	5.9
APR.	1.4518	6.1	1.3871	5.8

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MAY	1.3868	5.8	1.3664	5.7
JUNE	1.4460	6.1	1.3642	5.7
JULY	1.5858	6.6	1.3713	5.7

	GREAT BRITAIN			
JAN.	1.4847	6.4	1.3610	5.8
FEB.	1.4459	6.2	1.3502	5.8
MAR.	1.3990	6.0	1.3403	5.7
APR.	1.3875	5.9	1.3264	5.7
MAY	1.3249	5.7	1.3068	5.6
JUNE	1.3814	5.9	1.3051	5.6
JULY	1.5125	6.5	1.3099	5.6

2. RETAIL PRICES. RETAIL PRICES ROSE RELATIVELY MODERATELY IN JUNE. THE INDEX OF RETAIL PRICES (JAN. 15, 1974 EQUALS 100) ROSE 0.8 PERCENT IN JUNE WHILE THE 12-MONTH RATE OF INCREASE DROPPED FROM 7.7 TO 7.4 PERCENT.

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PA-02 /131 W

-----099143 192027Z /20

P R 191610Z JUL 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 8323
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
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THE FOLLOWING TABLE SUMMARIZES THE MOST RECENT MONTHLY
CHANGES:

INDEX,(JAN. 15, RECENT CHANGE FROM 12 MONTHS			
1974 EQUALS 100)		EARLIER	
1977 DEC.	188.4	12.1	
JAN.	189.5	9.9	
FEB.	190.6	9.5	
MAR.	191.8	9.1	
APR.	194.6	7.9	
MAY	195.7	7.7	
JUNE	197.2	7.4	

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THE RISE IN SEASONAL FOOD PRICES FOR THIS REPORTING PERI-
OD WAS TWICE THE RISE FOR THIS MONTH LAST YEAR AND ACCOUNT

ED FOR ONE QUARTER OF THE OVERALL 0.8 PERCENT RISE. HOWEVER, A DECLINE IN SEASONAL FOOD PRICES IS STILL ANTICIPATED IN THE LATER SUMMER MONTHS, BUT THE REMAINING INFLUENCE OF THE RECENT RISE IN MORTGAGE INTEREST RATES MAY OFFSET ANY BENEFICIAL EFFECTS OF LOWER SEASONAL FOOD PRICES IN JULY. WHATEVER THE MOVEMENT IN INDIVIDUAL COMPONENTS OF THE INDEX, IT IS PROBABLE THAT AFTER FALLING BY MORE THAN 10 PERCENTAGE POINTS IN THE PAST 12 MONTHS THE 12-MONTH RATE OF CHANGE IN THE RPI WILL BEGIN A GRADUAL CLIMB IN JULY.

3. INDUSTRIAL PRODUCTION. THERE WAS A SHARP DROP IN INDUSTRIAL PRODUCTION IN MAY, FROM THE UPWARD-REVISED APRIL LEVEL. THE FOLLOWING TABLE SUMMARIZES THE LATEST QUARTERLY AND MONTHLY DATA:

1970 EQUALS 100				
		PERCENT CHANGE		PERCENT CHANGE
ALL	FROM 12 MOS.	MFG.	FROM 12 MOS.	
INDUSTRIES	EARLIER	INDUSTRIES	EARLIER	
1977-I	103.2	3.1	105.3	4.1
II	101.9	0.4	103.0	-0.3
III	102.8	1.9	103.8	0.4
IV	102.3	-0.6	103.3	-1.2
1978-I	103.3	0.1	104.2	-0.9
FEB.	103.6	0.4	104.1	-1.2
MAR.	103.4	0.3	104.8	-0.5
APR.	105.9	3.6	106.6	3.0
M MAY	103.9	0.3	104.5	-0.3

A PART OF THE SHARP MAY DECLINE (1.9 PERCENT) HAS BEEN OFFICIALLY ATTRIBUTED TO THE INCLUSION OF A NEW PUBLIC HOLIDAY IN MAY 1978. A SOMEWHAT MORE INDICATIVE COMPARISON OF RECENT MOVEMENTS IN OUTPUT EMERGES FROM A COMPARISON OF THE MARCH-MAY AVERAGE OVER THE PREVIOUS THREE MONTHS: ON THIS BASIS THERE HAS BEEN A 1.3 PERCENT RISE IN OVERALL PRODUCTION AND A 1.3 PERCENT RISE IN MANUFACTURING PRODUCTION. THIS STRENGTH APPEARS TO PRESAGE A RELATIVELY STRONG PERFORMANCE FOR THE SECOND QUARTER. LOOKING AT THE DISAGGREGATED DATA, THE STRONGEST SECTORS HAVE BEEN CHEMICALS, METAL MANUFACTURE AND MINING AND QUARRYING. "FOOD, DRINK AND TOBACCO", AND MISCELLANEOUS MANUFACTURES HAVE CONTINUED TO LAG.

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ON A MARKET SECTOR BASIS, INTERMEDIATE GOODS INDUSTRIES HAVE SHOWN THE GREATEST STRENGTH WITH CONSUMER AND INVESTMENT GOODS OUTPUT NOT REBOUNDED AS RAPIDLY. THE MAY INDEX FOR "ALL INDUSTRIES OTHER THAN CONSTRUCTION" DECLINED 2.2 PERCENT. REVISED 1978 DATA FOR THAT SERIES FOLLOWS:

JAN.	106.3	APR.	109.6
------	-------	------	-------

FEB. 107.1 MAY 107.2
MAR. 107.0

4. RETAIL SALES. THE PROVISIONAL ESTIMATE OF THE SEASONALLY ADJUSTED INDEX OF THE VOLUME OF RETAIL SALES IN JUNE IS 109.0 (1971 EQUALS 100). THIS REPRESENTS A RISE OF 0.6 PERCENT FROM THE MAY FIGURE OF 108.4. FOR THE SECOND QUARTER AS A WHOLE, THE VOLUME OF TRADE WAS 1.5 PERCENT HIGHER THAN IN THE PREVIOUS QUARTER AND IN THE FIRST HALF OF 1978 IT WAS 3.5 PERCENT ABOVE THE AVERAGE OF 1977.

RETAIL SALES		
	SEASONALLY ADJUSTED INDEX (1971 EQUALS 100)	12-MONTH RATE OF CHANGE (PERCENT)
1977-I	103.3	-2.5
II	102.5	-4.1
III	104.3	-2.8
IV	104.4	-1.4
1978-I	106.3	2.9

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II	108.1(PROV.)	5.5
1978 MARCH	107.0	5.2
APRIL	106.7	4.3
MAY	108.4	5.0

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PA-02 /131 W

-----100391 192030Z /20

P R 191610Z JUL 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 8324
TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN
 AMEMBASSY BRUSSELS
 AMEMBASSY DUBLIN
 AMEMBASSY PARIS
 AMEMBASSY ROME
 AMEMBASSY TOKYO
 AMCONSUL BELFAST
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JUNE 109.0(PROV.) 6.8

5. AVERAGE EARNINGS. AVERAGE EARNINGS INCREASED MORE SLOWLY IN MAY AFTER THE SHARP APRIL RISE. THE FOLLOWING TABLE SUMMARIZES THE MONTHLY DATA FOR THE FIRST 10 MONTHS OF THE CURRENT PAY ROUND: PERCENT PERCENT

OLD INDEX CHANGE NEW INDEX CHANGE
 (S.A.JAN.1970 12 MOS. (S.A.JAN.1970 12 MOS.
 EQUALS 100) EARLIER EQUALS 100) EARLIER

1977

AUG. 287.7 8.0 115.7 7.3

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SEPT. 291.0 9.1 116.6 7.7
 OCT. 295.8 9.6 117.9 8.7
 NOV. 300.5 10.3 120.1 8.6
 DEC. 304.8 10.6 121.7 9.4

1978

JAN. 306.3 10.2 121.5 9.5
 FEB. 311.2 11.5 122.7 10.5
 MAR. 314.8 11.2 125.0 10.4
 APR.(PROV.) 325.7 14.8 127.2 12.4
 MAY(PROV.) 326.8 14.4 129.3 12.5

THE OLD INDEX WHOSE COVERAGE IS LARGELY INDUSTRIAL IN NATURE SHOWED THE SMALLEST RISE (0.3 PERCENT) OF THE CURRENT PAY ROUND. THE NEWER AND NOT YET SEASONALLY ADJUSTED INDEX ROSE 1.7 PERCENT IN MAY. IT IS SAID TO REFLECT BACK DATED PAY INCREASES IN CERTAIN SERVICE INDUSTRIES WHICH ARE NOT INCLUDED IN THE OLDER INDEX. IN THE FIRST 10 MONTHS OF THE PAY ROUND, THE OLD INDEX ROSE 14.1 PERCENT WHILE THE NEWER ONE ROSE 11.3 PERCENT. WHILE THE GOVERNMENT'S 10 PERCENT TARGET HAS BEEN COMFORTABLY EXCEEDED, THE OVERALL INCREASE IN AVERAGE EARNINGS FOR THE PAY ROUND AS MEASURED BY THE NEWER INDEX SEEMS LIKELY TO FALL IN A 13-14 PERCENT RANGE. IN THAT EVENT, REAL AVERAGE

EARNINGS WOULD HAVE INCREASED BY ABOUT 6 PERCENT BEFORE TAX.

6. FINANCIAL MARKETS. ON MONDAY THE BANK OF ENGLAND POSTPONED THE FULL RESTORATION OF A 3 PERCENT CALL FOR SPECIAL DEPOSITS FROM JULY 24 TO SEPTEMBER 11. THE BANK HAD REDUCED THE RATE OF CALL FROM 3 PERCENT TO 1-1/2 PERCENT, ANTICIPATING A STEP-WISE RETURN TO 3 PERCENT, REACHING 2 PERCENT JULY 3 AND 3 PERCENT JULY 24. THE TEMPORARY REDUCTION WAS TO EASE THE LIQUIDITY SHORTAGE OF THE UNCLASSIFIED

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BANKING SYSTEM OCCASIONED BY CONCENTRATED GILT SALES AFTER THE CHANCELLOR'S JUNE 8 MONETARY PACKAGE. MONDAY'S ACTION IS ANTICIPATED TO ALLOW BANKS THE USE OF 440 MILLION POUNDS FOR THE PERIOD TO SEPTEMBER 11. THE BANK INDICATED THAT THIS MOVE WAS INTENDED TO RELIEVE UPWARD PRESSURE ON INTEREST RATES WHICH COULD BE EXPECTED FROM A SEVERE SHORTAGE OF FUNDS ANTICIPATED OVER THE NEXT FEW WEEKS IN THE MONEY MARKET. IT STRESSED THAT THIS ACTION DID NOT REPRESENT A CHANGE OF POLICY, AND WAS NOT MEANT, IN PARTICULAR, TO EASE ANY PRESSURES ARISING FROM REINSTATING THE "CORSET."

SHORT-TERM INTEREST RATES ROSE MODERATELY OVER THE WEEK WITH THE AUTHORITIES ACTING TO RESTRAIN THE RISE. THE AUTHORITIES PROVIDED A GREAT DEAL OF RELIEF TO DISCOUNT HOUSES EXPERIENCING SEVERE SHORTAGES; ON MONDAY IN PARTICULAR THEY LENT MORE THAN 200 MILLION POUNDS AT THE MINIMUM LENDING RATE, AND BOUGHT OVER 150 MILLION POUNDS OF BILLS, ALTHOUGH MONEY WAS STILL SCARCE ENOUGH TO SEE OVERNIGHT INTERBANK BANK RATES NEAR 25 PERCENT AT THE CLOSE.

THE GILT MARKET EDGED BACK UP TOWARD TAP LEVELS BUT HAD NOT BROKEN OVER BY WEDNESDAY. MARKET SOURCES SUGGEST THAT EVENTUALLY, WITH SOME BUILD-UP IN LIQUIDITY, THE MARKET WOULD GO OVER. ONE SOURCE SAID THAT IF THE BANK HAD NOT POSTPONED THE RESTORATION OF A 3 PERCENT CALL FOR SPECIAL DEPOSITS THERE WOULD HAVE BEEN NO PROSPECT FOR SELLING THE TAP STOCKS FOR SOME TIME. VOLUME HAS BEEN VERY LIGHT OVERALL, AND MOST OF THE WEEK'S BUSINESS WAS IN SWITCHING.

7. THE FOREIGN EXCHANGE MARKETS THUS FAR ARE GIVING THE BONN SUMMIT THE BENEFIT OF THE DOUBT. THE OUTCOME WAS PREDICTABLE, BUT FOR THE LONGER TERM, THEY BELIEVE GERMAN AND JAPANESE EXPANSION AND U.S. ENERGY CONSERVATION SHOULD HELP THE DOLLAR PROVIDED COMMITMENTS ARE HONORED. UNCLASSIFIED

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STERLING HAS HAD A GOOD WEEK, WITH LAST WEEK'S RE-TAIL PRICE AND BANKING FIGURES CITED AS POSITIVE FACTORS. A TIGHT MONEY MARKET AND HIGHER TERM INTEREST RATES HAVE ALSO HELPED, ALTHOUGH LAST WEEK'S TRADE FIGURES WERE CON-

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PA-02 /131 W

-----099725 192031Z /20

P R 191610Z JUL 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 8325
TREASURY DEPT WASHDC PRIORITY
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SIDERED DISAPPOINTING. THE MARKET EXPECTS GOOD MONEY SUPPLY FIGURES ON THURSDAY. TRADING VOLUME HAS BEEN LIGHT TO MODERATE, MOSTLY PROFESSIONAL, WITH THE THOUGHT ADVANCED THAT COMMERCIAL BUYERS MAY HAVE COVERED MUCH OF THEIR NEEDS EARLIER IN THE YEAR, WHEN THE EXPECTATIONS

WERE FOR A WEAKER POUND.

8. EXCHANGE RATE AND GOLD

EFFECTIVE

EXCHANGE RATE

EXCHANGE (DEC. 1971 GOLD

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DATE	RATE (\$	EQUALS 100)	(\$)
7/12	1.8855	62.0	186-5/8
7/13	1.8865	62.0	186-3/8
7/14	1.8825	62.0	185-7/8
7/17	1.8800	62.1	184-3/8
7/18	1.8835	62.0	184-7/8

CHANGE 7/11-7/18 DOWN 0.0010 UP 0.1 DOWN 3/4

9. FORWARD PREMIUM ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/12	- 0.52	- 1.35	- 2.65
7/13	- 0.45	- 1.22	- 2.42
7/14	- 0.39	- 1.18	- 2.37
7/17	- 0.48	- 1.18	- 2.30
7/18	- 0.52	- 1.22	- 2.42

CHANGE 7/11-7/18 DOWN 0.07 DOWN 0.04 DOWN 0.08
(ALL FIGURES IN CENTS)

10. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/12	7-5/8	8-3/8	9-1/16
7/13	8-1/4	8-5/8	9-1/8
7/14	8-11/16	8-11/16	9-3/16
7/17	8-3/16	8-11/16	9-1/8
7/18	8-3/16	8-3/4	9-1/16

CHANGE 7/11-7/18 UP 1/8 UP 1/8 UNCHANGED

11. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST
RATE DIFFERENTIAL

DATE	
7/12	1-3/4
7/13	1-9/16
7/14	1-7/16

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7/17	1-17/32
7/18	1-1/2

CHANGE 7/11-7/18 UP 1/8

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12. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/12	10-5/32	10-1/32	10-1/16
7/13	10-1/16	10	10-1/32
7/14	10-1/8	10	10-1/32
7/17	10-7/32	10-1/16	10-1/16
7/18	10-9/32	10-1/8	10-1/8
CHANGE 7/11-7/18 UP	1/4 UP	3/16 UP	5/32

13. INTERPOLATED REDEMPTION YIELDS OF HIGH COUPON

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GOVERNMENT SECURITIES

DATE	5 YEARS	15 YEARS	25 YEARS
7/12	11.69	12.72	12.99
7/13	11.73	12.73	15.00
7/14	11.70	12.88	13.68
7/17	11.63	12.61	12.82
7/18	11.66	12.62	12.83
CHANGE 7/11-7/18	0.07	0.06	0.17

14. THE MINIMUM LENDING (MLR) REMAINED AT 10 PERCENT SET BY THE BANK OF ENGLAND JUNE 8.

15. AT FRIDAY'S TREASURY BILL AUCTION 571.75 MILLION POUNDS IN BIDS WERE RECEIVED FOR THE 300 MILLION POUNDS IN BILLS TENDERED, AND THE AVERAGE TREASURY BILL RATE FELL 0.0323 PERCENT TO 9.2446 PERCENT. THIS WEEK 300 MILLION POUNDS IN BILLS WILL BE OFFERED AS A LIKE AMOUNT MATURE.

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Message Attributes

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Handling Restrictions: n/a
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Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ddc8b370-c288-dd11-92da-001cc4696bcc
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Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD JULY 13-19 SUMMARY: RETAIL PRICES ROSE 7.4 PERCENT IN THE YEAR TO JUNE. RETAIL SALES VOLUME ROSE IN JUNE COMPLETING
TAGS: ECON, UK
To: STATE TRSY
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/ddc8b370-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014